



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 13, 2002

H.R. 5063

Armed Forces Tax Fairness Act of 2002

As ordered reported by the Senate Committee on Finance on September 12, 2002

SUMMARY

H.R. 5063 would raise the exclusion for death gratuity payments for the military, provide military and foreign service homeowners with relief from capital gains taxes, impose a mark-to-market tax on individuals who expatriate, and extend Internal Revenue Service (IRS) user fees through September 30, 2012. In addition, H.R. 5063 would provide individual taxpayers serving in the National Guard and Reserve with a deduction for certain overnight travel expenses, including meals and overnight lodging, incurred while attending National Guard and Reserve meetings. The deduction would be “above the line.” Such deductions are statutorily allowed subtractions from gross income that are used to compute adjusted gross income and may be taken by both taxpayers who itemize their deductions and those who do not.

The Joint Committee on Taxation (JCT) and the Congressional Budget Office (CBO) estimate that enacting H.R. 5063 would reduce revenues by \$91 million in 2003 and increase revenues by \$16 million over the 2003-2007 period and by \$2 million over the 2003-2012 period. Because the act would affect receipts, pay-as-you-go procedures would apply.

JCT has determined that H.R. 5063 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA), and would not affect the budgets of state, local, or tribal governments. JCT has also determined that the provision imposing mark-to-market taxes on expatriates contains a private-sector mandate. The total cost of complying with the mandate would not exceed the threshold established by UMRA (\$115 million in 2002, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 5063 is shown in the following table.

	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
CHANGES IN REVENUES					
Mark-to-market tax on expatriates	5	102	85	80	74
Above-the-line deduction for travel expenses	-83	-71	-73	-75	-76
Extension of IRS user fees	0	33	34	35	36
Tax relief from capital gains for military and foreign service homeowners	-2	-14	-14	-15	-15
Other provisions	<u>-11</u>	<u>-4</u>	<u>-4</u>	<u>-4</u>	<u>-5</u>
Total Changes	-91	46	28	21	14

SOURCES: CBO and the Joint Committee on Taxation.

NOTE: Components may not sum to totals because of rounding.

BASIS OF ESTIMATE

All estimates, with the exception of the provision affecting IRS user fees, were provided by JCT. A number of provisions would reduce revenues if enacted, and several would increase revenues. All together, the act's provisions would reduce revenues by \$91 million in 2003, and would increase revenues by \$16 million over the 2003-2007 period and by \$2 million over the 2003-2012 period.

Most of the revenue reductions would occur from the provisions providing reservists with an above-the-line deduction allowance for travel expenses and providing military and foreign service homeowners relief from taxation of capital gains. The provisions raising the exclusion for death gratuity payments for individuals in the military, providing an exclusion for amounts received under the Department of Defense Homeowners Assistance Program, expanding combat zone filing rules to contingency operations, and extending section 501(c)(19) membership to certain relatives of military personnel would also decrease governmental receipts. As estimated by JCT, all of these provisions together would reduce revenues by \$96 million in 2003, by about \$468 million over the 2003-2007 period, and by about \$995 million over the 2003-2012 period.

JCT estimates that the provision imposing a mark-to-market tax on individuals who expatriate would increase revenues by \$5 million in 2003, by \$346 million over the 2003-2007 period, and by \$656 million over the 2003-2012 period.

The act also would extend the period during which the IRS may charge fees on businesses for providing ruling, opinion, and determination letters. Under current law, the IRS's authority to charge such fees will expire at the end of fiscal year 2003. The act would extend the authority to charge such fees until September 30, 2012. Based on the amount of fees collected in recent years and on information from the IRS, CBO estimates that extending the fees would increase governmental receipts by a total of \$341 million over the 2004-2012 period.

JCT and CBO estimate that combined, these two provisions would increase revenues by \$5 million in 2003, by about \$484 million over the 2003-2007 period, and by about \$997 million over the 2003-2012 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects through 2006 are counted.

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Changes in outlays				Not applicable							
Changes in receipts	0	-91	46	28	21	14	9	4	-4	-10	-15

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

JCT has determined that H.R. 5063 contains no intergovernmental mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT has determined that the provision relating to mark-to-market taxes on expatriates contains a private-sector mandate, and that the direct cost of complying with the mandate would not exceed the threshold established by UMRA (\$115 million in 2002, adjusted annually for inflation).

ESTIMATE PREPARED BY: Annie Bartsch

ESTIMATE APPROVED BY:

G. Thomas Woodward
Assistant Director for Tax Analysis